Can Crescent Point Energy Corp Cope With Sub-$50 Oil?

Description

> “Oil prices have always been cyclical. We’ve been through downturns before and have not only protected our dividend and balance sheet during those times, but have come out of them even stronger than before. We expect this cycle to be no different. We will be conservative and prudent with our capital spending, and will remain flexible to react to changing oil prices.”

Those words came from **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) CEO Scott Saxberg in a January 6 press release. But despite his reassurances, there are some reasons to be worried.

First of all, Crescent Point is planning on maintaining its dividend, which currently stands at $0.23 per month. Could this put the company under financial pressure? After all, the 2015 capital budget is 28% below 2014’s spending. And in the press release, Crescent Point curiously did not reveal its oil price forecast for 2015.

So that begs the question: Just how prepared is Crescent Point if oil stays below US$50?

A strong hedging program

Crescent Point has always placed an emphasis on hedging its future oil production, and these days that policy is an absolute blessing.

To illustrate, roughly 50% of 2015’s expected production is locked in at prices of over $90 per barrel. Meanwhile, the average figure among the company’s peers is about 20%. Ironically, Crescent Point has over 20% of 2016 production already locked in. So even with oil currently at $50, the company is quite well-protected.

Excellent financial flexibility

Better yet, Crescent Point’s balance sheet is much more solid than most of its competitors. To put this in proper perspective, the company has a forward debt-to-cash flow ratio of 1.3x, while its peers average 1.8x.

This could prove to be an advantage in more ways than one — not only will Crescent Point survive, it could even prey on its weaker competitors. More specifically, the company could buy assets (or make acquisitions) at severely depressed prices.

Low-cost production

The more oil prices fall, the more important it is to have low-cost production. And once again, Crescent Point is well-positioned. Its core areas have breakeven oil prices ranging from US$40 to US$60, while other areas require oil prices higher than US$60 to make a profit.

And these numbers could easily go down. When oil prices are depressed, and producers are cutting back, labour and equipment costs tend to be much lower too. The company anticipates it can save at least 10% on operating costs. If history is any indication, the discount will be higher.

So does this mean you should buy Crescent Point?

Not necessarily. Crescent Point's shares remain risky, and will continue to slump if oil prices remain depressed. But if you were afraid the company will run into trouble (perhaps leading to a dividend cut), you can rest a little easier now.

CATEGORY

1. Energy Stocks

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1. NYSE:VRN (Veren)
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Date
2025/09/10
Date Created
2015/01/16
Author
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